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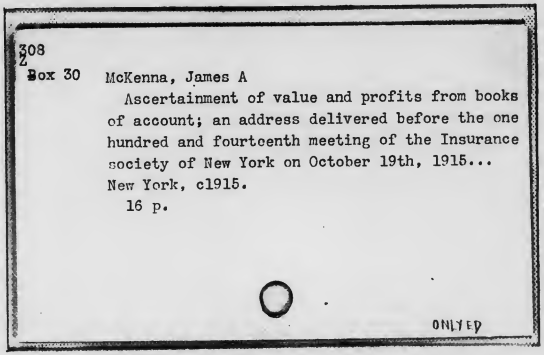


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# Ascertainment of Value and Profits from Books of Account

AN ADDRESS

Delivered before the One Hundred and Fourteenth Meeting

OF

## The Insurance Society of New York

ON

October 19th, 1915

BY

Mr. James A. McKenna

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# Ascertainment of Value and Profits from Books of Account.

Without claiming any authority for my address other than my personal opinion and impressions which are largely the reflection of practical experiences garnered during the long days of personal contact with the investigation of books of account which have fallen to my work-a-day life, may I still hope to command your attention, retain your interest and merit your approval.

While the subject "Value and Profits as Ascertained from Books of Account" may embrace a wide and diversified field in practical accounting, full of complex and interesting problems, the elucidation of which could not fail to prove highly interesting and instructive, it is this subject AS IT APPEARS OF INTEREST TO THE MEMBERS OF THIS SOCIETY—Insurance men—AND ITS RELATION TO THE MATTER OF INSURANCE that calls for our consideration this evening.

If what I may say in that light will add in the slightest way to the sum of knowledge in your possession relating to practical methods or will stimulate your thought to better and clearer ways of meeting the difficulties which you so often encounter in the work of ascertaining these factors from books of account, I will consider myself fortunate, indeed, that the opportunity was afforded me to speak to you, even though my theme had to deal with figures and their deductions (mathematics) and was not calculated to hold your attention or evoke your enthusiasm.

*Value* as shown by books of account is an expression of worth presumably recorded and ascertainable from actual transactions which, at the time of record, represented the worth of the articles dealt in and entered on the books of account with the ultimate object of showing the result of such transactions at a given time. The value deduced from books of account may be subject to increase or decrease caused by appreciation or depreciation, occurring subsequently to the entry of the worth of the commodity upon the books.

*Profit* as ascertained from books of account is the expression, in money value, of the excess of receipts from sales over the cost. This Profit is usually expressed in the form of a percentage upon sales, though it would appear to be more logical if the custom were to determine the profit percentage upon the cost.

The terms Value and Profit considered in their relation, one to the other, on the books of account, and ascertained therefrom, are so dependent on each other for their accuracy and expression of truth that perfect consistency must be scrupulously maintained at all times in the treatment of all factors which in a given set of books are employed for the ascertainment of both, for if one be incorrectly determined it necessarily follows that both are.

At the outset let us understand and keep in mind that even in kindred businesses there is no uniformity of system or practice in keeping books or in treating cost items. In fact there is great divergence of opinion as to what constitutes cost. So without any authoritative guide to refer to or quote I shall refrain from adding to an already much confused question by attempting to fix a standard and shall illustrate my point with reference to fundamental principles.

To find, from books of account, the value of a stock of merchandise, the usual and customary procedure is to follow the lines upon which the assured has kept his books, for in most instances the necessary segregations are observed and the claim for loss as prepared by the assured is based on and taken from such sources.

The factors which usually come under observation and call for the consideration of the person entrusted with the ascertainment of value and profits are: an inventory of stock on hand at a certain date, the purchases of material since then (as evidenced by invoices), freight and other necessary items of cost, to which, in case of a manufacturer, should be added labor and all necessary manufacturing expenses and legitimate overhead charges, carried down to date of fire. The aggregate of these items would represent the value of the stock at the time of the fire provided, of course, there had been no sales or shipments during the period covered by the account as prepared under these instructions and we would have to deal with a simple problem of addition. But there is almost always the question of sales and the REDUCTION of the amount realized for the sale of goods to their cost value; or, when goods are sold at less than cost, a sum must be added thereto to equal their cost. This

The Insurance Society of New York
84 William Street : : : : : New York City

## *The Insurance Federation*

What is the Federation? The key note is set forth in the publication of the Federation as follows:

> "The object of the Federation is to furnish its members and the general public with reliable information concerning the origin, nature and effect of any and all legislation, the purpose or natural consequences of which is to make the State directly, wholly, or in part, an underwriter of insurance hazards of any description."

The movement is widespread. A majority of the states already have organized State Insurance Federations, and it would seem that before the end of 1916, if not earlier, every state in the Union will be organized.

In the Bulletin of the Fire Brokers' Association an article dealing with the subject of Federation said, among other things, the following:

> "State insurance is a menace to the whole fabric of the insurance business, and every other legitimate business as well. It is but a step from the casualty to the fire and to the life. It opens the door to the confiscation and monopolization of every wholesome enterprise.
>
> We must give the people freely of our knowledge. What the public do not understand, they fear, and their fear gives those who have their hand on the public pulse no little apprehension. For this lack of understanding the insurance business is largely responsible, not only because of its highly technical nature, but our attitude of repressing rather than fostering public education.

The watchword of the present age is organization, and this means mobilization, education and preparedness. Born of great necessity, there came into existence an organization that offers to the business as a whole, whether it is stock, mutual or fraternal, a great bulwark of protection. It is not an organization seeking political power. It asks for no special privileges. It asks only for the people that it represents a square deal, a chance to live and make a fair profit in their chosen avocation, a right which should be unquestioned, guaranteed by our constitution and a birthright given to us by a good American ancestry.

This organization, embracing as it does the policyholders, fraternal lodges, mutual associations and insurance employees and representatives of all kinds, gives to the business a vast mobilized army for defense."

The insurance people of New York City have a chance to learn something about this movement at the meeting to be held January 18th, 1916.

The speaker will be MR. MARK T. MCKEE, *Secretary*, The National Council of Insurance Federation Executives, of Detroit, Michigan.

Full information, if you have mislaid your special announcement, may be obtained at the LIBRARY of this Society, 84 William Street, New York City.

requires a determination of what amount of profit or advance over cost is contained in the sales amount and the ascertainment of the profit ratio on sales or, in rare instances, the ratio of loss.

Custom has to a very large extent established a practice which may be said to have much force in reason and justice to warrant its adoption, and that is to ascertain from the books of account what percentage of profit or advance over cost has been realized from sales of goods or of the product of the particular business under consideration. Custom has also prescribed certain rules as to how such percentage of profit or cost is ascertained and unless there is a very good reason to the contrary, these customs are followed for they are usually acceptable to both claimant and the insuring company.

In cases where there has been no previous period of business, namely, where a fire occurs before any inventory has been taken, it becomes more difficult to find a profit ratio to reduce the sales amount to a cost basis in order that a proper deduction may be made from the value of the stock represented by purchases or manufacture. Under such circumstances, in the case of a manufacturer the stock value may be ascertained by finding the individual cost for material, labor and overhead charges of the articles manufactured; then, from the books, should be ascertained the sums realized from the sales of such articles, or if not ALL, a sufficient number of such articles in order that a fair and equitable percentage of profit may be arrived at to reduce the aggregate output to a cost basis.

In the case of a merchant or jobber where the goods retain their identity in whole or in part an examination of the sales will show at once the price realized for the articles dealt in, and a percentage of profit can be easily obtained to apply to the sum realized in order to reduce the sum to a cost basis; or, if the business is of such a nature as to call for a more extended ascertainment of profit, the amount of profit or advance on each class of goods and on each style of goods can be ascertained, and by that method may be reached the value of the goods which have been shipped or removed from the premises where the fire occurred and upon which claim is predicated. To particularize any kind of business would be to extend the scope of this lecture beyond any possibility of intelligently and adequately covering it in the time which has been set apart for me to present to you my opinions on this subject.

Everything that I have called to your attention so far has been fundamental and by way of introduction. From actual

practice most of you are entirely familiar with the matters of which I have spoken; indeed, where books of account are properly kept and a full and true record made of the items of original cost and all additions thereto, and of the amount realized from sales, it is a very simple proposition to deduce from the books of account both the profit and the value as shown by such books of account.

A word now as to Value. The economic side of value, the appreciation or depreciation which attaches to this value, the varying influences which might tend to increase or decrease the sum as ascertained from books of account, it is not my purpose to dwell upon nor to enter into here. Therefore, in considering the subject under discussion we will treat of the VALUE AS ENTERED UPON THE BOOKS, and the PROFIT AS ASCERTAINED FROM THAT VALUE, presuming, of course, that a correct and true record of all transactions is made in the books.

The value and the profit deducible on books of account depend upon the verity of the entries made therein and it is to the elimination of any excessive or increased expression of value either through a misconception and misunderstanding of what constitutes value or a deliberate effort to increase such value that the accountant who is entrusted with the responsibility of the ascertainment of these two subjects has in actual practice frequently to address his attention.

Profit, in and of itself, is but the reflex of the other entries placed in the books, or the omission to enter in the books the transactions which should be of record. So that before any use may be made of a profit ratio deducible from entries in the books, where possible, the soundness of such entries should be tested; and where there is absence of the books, documents or records necessary for such verification, recourse should be had to other avenues of information which ought to lead into and form part of the bookkeeping system of the concern.

The field covered by bookkeeping is so large and comprehensive in its scope that for one to attempt to state what in his judgment and experience should represent value he would have to traverse such a variety of businesses and cite so many examples that it would not be within the range of possibility to cover them even in outline in the time allotted for this lecture; and, to attempt to say what particular items go to constitute value and distinguish them by name would necessitate qualifying explanations because of the differences between the methods of running the accounting departments of mercantile, manufacturing and



other establishments. As to the original cost of materials, labor, freight and other incoming charges we find substantial agreement, but there consistency ends. One concern in perfect honesty will contend for one class of expenditure as overhead charge, while another concern equally honest and experienced in the conduct of its business will disregard such an expenditure in the overhead charge.

To take up seriatum and discuss the relative methods of each of these contending parties would lead us into a maze of the niceties of bookkeeping and accounting which my conception of duty this evening tells me not to enter as being uncalled for by the amenities of this occasion and the good nature of you gentlemen. Furthermore, it is assumed that it is within the knowledge and experience of most of you—I might say the daily experience of many of you in the discharge of your official duties—to be called upon to ascertain from books of account a statement of value and profits. In such cases it is the face value of the figures therein entered with which you deal and this daily experience has practically reduced such ascertainment to a sum in arithmetic, neither complex nor difficult.

Although avoiding dry theories, I shall not leave this part of my subject without giving you two actual instances of obtaining value from books, first, by reducing the elements on the books to cost and, second, by ascertaining the value on the books by the employment of a profit ratio.

The first instance is the ascertainment of the value of a stock of goods from the books which were kept on a cost basis, as follows:

| | |
|---|---|
| Inventory on hand | $143,813.36 |
| Add manufactured since, at lot book cost | 266,642.21 |
| Making total stock of | $410,455.57 |
| From which deduct sales at lot book cost of | 167,894.14 |
| Leaving on hand manufactured stock at lot book cost of | $242,561.43 |
| There was salvaged at lot book cost | 101,511.69 |
| Leaving totally destroyed at lot book cost | $141,049.74 |
| Which, reduced by deducting manufacturer's profit of | 10,448.13 |
| (a ratio of 108:100) | |
| Shows the manufacturer's cost of stock to be | $130,601.61 |
| which includes certain excessive overhead charges. | |

Possibly no better illustration of the divergence of opinion as to what constitutes overhead or fixed charges can be cited than this particular case. The assured was of unquestioned integrity, of the highest moral and business reputation and one of the most efficient manufacturers in the country, yet carried on the books and charged as part of the manufacturing cost certain fixed charges which it was contended most strenuously were proper elements of cost and value. After many conferences and protracted discussions and presentation of arguments and figures pro and con in which I was privileged to join as accountant representing some seven or eight adjusters who appeared for the insurance companies, carrying a line of over $200,000 upon the stock, it was agreed that the overhead charges were excessive by four per cent., and a sum of $5,023.14 was deducted therefrom, leaving a book value of cost of $125,578.47. It was determined by calculation that 71% of this amount represented raw material which was charged upon the books at its invoice cost value which was used as a basis of cost in all the calculations heretofore referred to and employed in this statement. Nevertheless, this 71% was subject to a cash discount of 9%; therefore, it became necessary in order to arrive at what we will here call the cash value at the time of the fire, to reduce the 71% (or $89,160.71) by 9% (equalling a sum of $8,024.46). By applying this deduction of cash discount of $8,024.46 from the book value of $125,578.47 we have a remaining value of $117,554.01 which it was agreed and determined represented the cash value of the stock destroyed by the fire.

It is rarely that we find a case in actual practice which includes so many of the elements which are necessary to reduce a stock of merchandise to value. In this case we had to deal with the manufacturer's profit, with an excess of fixed or overhead charges and with a cash discount; all of which had to be determined upon a percentage basis as shown by transactions on the books for periods of actual operation at a time preceding the claim. That they were ascertained correctly is evidenced by the fact that they were accepted by both the assured and the representatives of the insurance companies who, after exhaustive analysis of the books and detailed calculations, reached the same conclusion.

The first value which we reached in this case was what was called the lot book cost and it amounted to $141,049.74. When a net cash value of $117,554.01 had been fixed upon as the measure of the worth of the goods destroyed in the fire we had



reduced the lot book value or cost by $23,495.73. In this case the books afforded ample information to work out to a demonstration the very satisfactory results here shown and the assured met us with a disposition of willingness to be convinced by the arguments that we were able to present. I may add that this happy condition of affairs is not always present in examinations of books of account and adjustments and settlements of losses.

My second example is an ascertainment of value by the employment of the profit ratio and has to do, like the preceding case, with a loss which was actually settled and determined happily and, like its forerunner, satisfactorily to all concerned.

| | |
|---|---|
| The stock on hand at the time of inventory taking amounted to..... | $707,715.46 |
| To which we add the purchases less errors and omissions and duplications of..... | 1,484,657.42 |
| From which a deduction should be made for rebates and bonuses (which was peculiar to this particular business) of..... | 14,630.97 |
| Adding the inventory and the purchases together and deducting bonuses and rebates, we have a total stock of..... | 2,177,741.91 |
| There had been sales and shipments of goods which, according to the books, represented the sales value of..... | 994,192.11 |

From the books of account, in this instance from the operations of the preceding years, it was found that the profit ratio varied very little in the various years; therefore, accepting the showing from the books of account it was determined and agreed that the percentage of 14.21% flat on sales was included in the sales value of $994,192.11. Thus it was necessary to reduce the sales value to a cost or book value by a deduction of 14.21%, which amounted to $141,274.70, from the amount of the sales. This deduction placed the sales at a value of $852,917.41 and upon an equal basis with the cost as charged upon the books. The next step in the ascertainment of value was to deduct this $852,917.41 from $2,177,741.91, the total of Inventory and Purchases, leaving $1,324,824.50 as the book value of the stock at date of fire; but at the time claim was made for loss by fire there were at sundry other places beyond the cover of the policies concerned goods of the book value of $230,101.17 which also were to be deducted, leaving in the premises where the fire occurred goods with a book value of $1,094,723.33. The purchases made by this concern and charged upon the books at invoice

cost were subject to varying rates of discount, some as low as 2%, others ranging, with allowance for dating, considerably over 9%. The operations of the business for the preceding years showed an average available cash discount of something under 7% while much of the stock that was purchased and consumed in the fire was entitled to an average discount of something over 7%. It was finally agreed that a deduction of 7% from the book value was fair to all concerned in order to reduce the stock consumed to a cash basis. Therefore, the sum of $76,630.63 was deducted from the book value aforestated, leaving as a cash value of the stock on hand at the time of the fire $1,018,092.70.

The citation of these two instances is quite sufficient to illustrate the practicability of preparing a statement from the books of account. It is very evident that the ascertainment of the factors employed called for an extensive examination, particularly in determining the profit ratio, but in every branch of the work we could depend absolutely upon the honesty of the figures of inventory, sales, purchases and other elements entering into the problem. Barring clerical mistakes we could accept without question the entries upon the books.

Had we encountered in these two instances elements of fraud as to inventory, excessive charge for purchases or omission of sales, we would have had a more serious if not a practically impossible problem. We could have deduced certain figures from the books, however, which might have fallen under and comprehended one definition of value and profits as ascertained from books of account but which would not have represented the correct value of the property intended to be represented and purporting to be so represented.

It has happened, not infrequently—and one has not to be a prophet to say it may happen in the future—that the inventory by which the merchandise or trading or manufacturing account on books of account is closed is swollen as to values of the articles therein mentioned and, also that the numbers of articles therein mentioned are set down at more than were actually on hand at the time the inventory purports to have been taken. In other words, the inventory may be loaded as to quantity, as to price, or both. When this is the case we have not only a surcharge in the inventory of whatever the amount of loading may be determined to be but we have an increase in the profits which is reflected in an increased profit ratio. Now, when we apply this increased profit ratio to the transactions for the period from the taking of the inventory to the date of the



fire we take from the sales more than the actual profit realized, and by such method reduce them below cost which, as is readily seen, tends to inflate the value of the stock in the premises at the time of the fire.

The many and varied methods employed to load an inventory make it extremely difficult to prove that a certain class of goods or certain items set out in detail in an inventory are in excess of what they ought to be. And while experience in the examination of books equips a man very often to go to the place where such falsification exists, still, from such experience one becomes thoroughly conscious that the more we know about such transactions the more we know that we do not know. I have often heard it claimed that locating the loading in an inventory is a science known to few—and I have heard science defined as "first experience, then inference."

That entries in books are not always to be taken at their face value experience has again and again proved; and in fact, we are not without absolute proof that a fraudulent amount claiming to represent inventory of stock has been deliberately and purposely carried upon books as true and correct and statements drawn therefrom based upon that fraudulent amount for a period exceeding FIVE YEARS. As bearing directly upon this kind of fraudulent expression of value permit me to cite two instances which have come under my observation and which fell to my lot to develop in the course of investigations I was conducting in behalf of the insurance companies where claims had been made for loss suffered by fire.

After the happening of a fire where considerable damage was claimed to have been done to a stock of goods and a claim presented in excess of the proper amount by over $100,000 effort was made to sustain such claim by the entry of a swollen inventory, the merchandise account on the ledger being increased by the aforesaid sum of $100,000, and a corresponding increase being made in the capital account. Six years prior to the inventory preceding the fire the inventory, profit and capital accounts were increased $100,000 and this increase in the inventory and capital account was carried down through all the years to the time of the fire. Examining the merchandise account and running back for a period of two, three or four years would have found the inventories in perfect consistency and no disturbance made in the percentage of profit. The capital account had likewise preserved its consistency, no disturbance being found there. But the amount of the claim seemed exorbitant and put the Committee

of Adjusters in charge upon inquiry as to why such an extraordinary amount of stock should have been carried for the amount of business that was being done and an EXHAUSTIVE examination of the assured's books was authorized. Running back of the three year limit in such investigation it developed that it had been the custom of the concern to allow interest upon the NET CAPITAL employed in the business, and it was then discovered that the interest allowance had been made upon $100,000 LESS THAN THE AMOUNT CARRIED UPON THE LEDGER. With this lead the examination ran back to the six year period where the alteration was discovered to have been started and in the particular year at the close of which the $100,000 increase was made in the inventory, the profit shown by the books was $100,000 in excess of the division represented by a journal entry as having been made to certain junior partners. The alterations of footings of the merchandise and capital accounts were very skillfully executed, the ink used having been exposed to the air to age it and where it was necessary to remove a figure such removal was made by acids and was so skillfully done that the ruling in the book was hardly affected. In very many cases it was not necessary to remove any figures at all, it sufficing simply to prefix the figure "1". Having established the FACT of the alteration we were soon able to secure abundance of CONFIRMATION.

In another instance where the inventory was increased by $100,000, and carried on the books at such fraudulent figure, statements were regularly made to mercantile agencies for a period of over five years, representing inventory of stock on hand as being over $100,000 in excess of the true amount; a total destruction of the property took place and there was presented to the insurance companies a detailed inventory fraudulently increased by over $100,000. The inventory (in crude, though regular form) was properly entered on the books. For five years immediately preceding the time of the fire the inventory entries created no unusual disturbance in the merchandise, profit or capital accounts, but at the same time carried fraudulent loading of something over $100,000. In this instance it so happened that the ledger presented for examination covered a period of two years prior to the fraudulent increase and while the normal profit ratio of the business showed about 25 per cent., the period wherein the fraudulent inventory was entered showed a profit ratio of over 170 per cent. Had the assured offered in support of his claim a ledger covering but four years' transactions we would have been confronted with an inventory amount entirely consistent upon the books for a period of four years and supported by a detailed inventory purporting to represent the actual count and record of the stock on hand at the date of inventory taking next preceding the date of the fire, but actually containing a loading of over $100,000.



From these two instances it is evident that figures on books of account do not always represent the value of the goods and stock on hand at any given period. And, indeed, one cannot help but wonder who it is that "cooks up" the extraordinary travesties which one comes across from time to time in the examination of books relating to claims for loss by fire.

Quite another source of improper statement of values from books of account occurs where there is incorporated into the charge for material or labor improper amounts—in the case of material, through false invoices, and in the case of labor, either through padded payroll or a faulty conception of what constitutes cost. Very often we find elements under the heading of overhead charges which are clearly and distinctly items of expense, to be borne and paid for out of the profits of the business and in no way chargeable to the cost.

As to the first of these classes of improper charges (that of invoices) we find great difficulty at times in recognizing and distinguishing that which is false from that which is true. Here it is that the EXPERIENCED MAN, either adjuster or accountant, must be relied upon to detect the fraud.

The elements of the PADDED PAYROLL also require experience and analytical ability to discern the lack of proportions by which such improper charges are exposed. The inclusion of excessive amounts for overhead charges is a matter open to dispute and discussion and they can hardly be classed as positively fraudulent items although their effect in increasing the amount of a claim is as potent. To determine just what are proper overhead charges is to treat of a variable factor, according to the particular business under investigation.

Another class of error or fraud which we find (though not frequently) is the SUPPRESSION OF SALES. The ascertainment of the amount of sales suppressed presents real difficulties. Sometimes they are suppressed by actual sales directly recorded on the books and an entry made falsely purporting to show returns of the goods to the seller. I have come across this class of fraud several times in the past few years. The shipments of large quantities of goods with no record or only a

partial record being made upon the books, is certainly difficult to trace and is too varied a subject for any but the experienced specialist.

I know of an instance where the following method was pursued: a sale amounting to $1,000 was made to A and recorded on the salesbook as $100, A's account in the sales ledger being debited $100. When A paid this bill, sending a check for $1,000, it was not entered in the regular cash book of the concern nor was deposit made in the seller's bank; instead, the check was deposited to the credit of the bank account of a member of the firm and he drew his personal check for $100, which sum was entered upon the books of the firm as the amount received from A. This method effectually shut out any reference in the books to the sum of $1,000. There were a number of such transactions. In carrying out this scheme of suppression of sales and false entries upon the books there had to be collusion between the bookkeeper and entry clerk (in this case one and the same person) and a member of the firm. Discovery of the fraud was made by the fact that a certain style of goods which was shipped to A was shown by the manufacturing book to have been in stock, but some time prior to the fire an ORDER SENT IN BY X for a quantity of this style number WAS DECLINED with regret BECAUSE THE ENTIRE QUANTITY HAD BEEN SOLD TO A who, no doubt, would be pleased to fill X's order. Acting on this clue an investigation was started which developed the fact of the suppression of the $900 sale to A and of sales to other persons approximating in all over $10,000, all of which had been paid for and cleared, as stated, through the private bank account of a member of the firm.

Thus far we have been speaking of cases where we have had complete or nearly complete sets of books. It not infrequently happens in cases where reasonable suspicion is aroused by the amount of the claim compared with the extent of the fire that certain books and records are missing. Indeed, this condition has grown so notorious that it has become the custom to look for and expect that in a certain character of claims the books most needed will not be produced. We then have a different problem to face and often are forced to go outside of the record as presented. Oftener, however, we can by laborious and painstaking analysis gather from the remnants of imperfect records which are available sufficient evidence logically and completely to refute and disprove the amount of value claimed. In the employment of this kind of investigation the profit ratio enters very largely into



the work and ofttimes becomes a determining factor. Sometimes, however, the work of manipulation has been so adroitly and successfully carried out as to deprive even these analytical methods of their potency and force. In cases of such nature the ascertainment of value becomes more difficult and the calculations more complex. There are, however, in every business certain rules and averages governing and controlling the relation of one account to the other, any disturbance of which necessarily is reflected in one or the other. In such cases it becomes the duty of the accountant to analyze the material obtainable by him and to marshal his facts, however meagre, to develop the fraud, so as to show negatively, if not affirmatively, that the amount and value of the loss could not have been as represented, even though it may not be within his province to state correctly what it OUGHT to be.

In testing the accuracy or reliability of the entries on books, as regards the inventory, the items of purchases, sales and other factors of value and profit, the use of the accepted canons of the art of accounting very frequently discloses that there is a lack of harmony in these factors which increases the value, such increase being included by the assured in the statement of the claim presented for payment. This disturbance is based upon the fundamental truth and logic of accounting which often points the way for the correction of the evil.

While books of account speak authoritatively and are relied on almost wholly for the evidence of the claims of value and profits presented, nevertheless the personal element of both the investigated and the investigator, or the claimant and the adjuster and accountant, have largely to do with the successful outcome of all examinations. An attitude of know-all and self assertiveness while ALWAYS IMPEDING, more often than not will ABSOLUTELY THWART the investigator in his purpose of ascertaining all the facts surrounding and concerning the claim and in seeking the truth beyond the figures. Bearing in mind that the claimant having met with a misfortune by fire is entitled to and should receive courteous consideration and expeditious treatment in the examination of his claim, it holds true that a proper consideration of the claims of the assured and those of the insurer will best subserve the interests of both.

In cases where we have reason to believe that an improper claim is being made and we are searching for the facts, groping about without definite guide, it is well to bear in mind the old adage that the blustering North wind was defeated in its efforts

to tear away the traveler's coat but the cheerful whisper of the South wind out of a smiling sky won the victory.

Concerning the actual work of investigation of books for the purpose of eliminating fraud which has been planted therein, it may be said that while to the uninitiated the labor may appear to be trying and unpromising still, to those who pursue the work with the creative imagination necessary to draw from the entries and read beneath the figures the suggestion and clue leading to the unraveling of the skein of fraud showing wherein they are contrary to the truth and misrepresent the facts that should have appeared, it is a real pleasure and a test of the gold of experience that is on deposit in the mental treasury of the investigator.

To lay bare the artificial means employed to create value and swell profits, and to take away all such inflation with its attendant malpractice, thereby restoring the proper condition is a labor which, far from tiring, holds till the end the concentrated energy of the investigator whose reward is ample and satisfying when he has separated the false from the true.

I thank you.

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TITLE